PRINCIPLES OF CURRENCY.

By
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(Read 14th September, 1915.)

The word currency is used to denote that which passes from hand to hand as a medium of exchange. At the present time, coin, notes, cheques, bills of exchange, postal orders, etc., constitute our currency.

Simple exchange or barter is clumsy and inconvenient, except for those isolated occasions when one person has exactly what another wants at the same time that the second person has exactly what the first wants. This coincidence is so rare that the need for the use of some commodity as a store of value and a medium of exchange, that is to say as currency, is one of the earliest felt by traders in any community. It is only in small villages where a simple form of communism has been established that any collective life can be carried on without a currency in which to measure the value of the various services performed. In barter one of the greatest difficulties is how to deal with large objects difficult or impossible to divide. One of the first conditions to be fulfilled by the medium to be used as currency, must therefore be divisibility. Most of the currencies of the past, except that of the pastoral states, were made of materials easily divided to meet the needs of small transactions.

For currency it is desirable also to select something which is generally wanted, as an article which is in fairly constant demand will remain at about the same value at all times. Stability in the value of the material used as currency is obviously important. It is desirable also to have as currency something that can easily be carried about, easily recognised, difficult to destroy, and homogeneous in character.

It is clear that it is difficult, if not impossible, to find a commodity fulfilling all these requirements, nor are they always of equal value. The nature of the trade of the country concerned would decide which of the attributes were the most important. For a small country with simple industries, a currency that can easily be passed from hand to hand, keeps about the same in value, is easily divided, and easily recognised, would be about all that would be required. History shows that for such conditions currencies of cowrie shells, wampunpeag, rum, sugar, tobacco, or

metallie eoins have all proved able to meet the requirements of trade without mueh ineonvenienee. For a great eommereial or industrial State, sueh a eurrency is not quite suffieient. For dealing with wealth in large sums, portability and stability of value become much more important. The medium of exehange need not be the aetual standard of value, but only some token representing it. The use of sueh a token permits of a medium of exehange of great portability being in use, together with a standard of value of great stability. We see sueh a system in operation in the Unitcd States. The standard of value is a (theoretieal) gold dollar, standard gold coins being made of the values of 10, 5 and 2½ dollars. The prineiple eurreney is however of paper; a most portable material. The one serious drawbaek to this system is the ease with which the material used for currency can be destroyed, partieularly by fire.

Under modern conditions heavy and bulky material is not desirable for use as eurreney, although in pastoral States slow and eumbersome oxen appear to have been suffieiently portable for the needs of the eommunity. Sueh a medium of exehange would obviously be useless for the thousands of small transactions of modern life. Even metal, when it beeomes eheap is apt to be too bulky for eonveuient use. A eurious instance of this oeeurred in Sweden. From 1644 to 1776 there was a eurreney of thick square plates (plätar) of pure eopper of various sizes, the largest weighing as mueh as 17 kilogramnes (37½ lb. avoirdupois). The valne in silver dalers, with the year of its issue, was stamped in the eorners and in the middle of each plate. The reason for using these eumbersome blocks was a desire to benefit the Swedish eopper mines. For a long time these plates formed the ehief medium of exchange in Sweden, and as they were very unwieldly, merehants had to provide themselves with wheelbarrows when making payments of any eonsiderable sum. The value in sterling of the large plate was about £1 6s. 5d., so that a payment of three pounds involved the transfer of a hundredweight of eopper plates. In our own eurreney the penny, which is only a token representing the 240th of a pound, is inconveniently large.

The attribute of divisibility is very important for modern retail trade. Oil, eorn, eowries, wampumpeag, tobaeeo, etc. were all superior in this respeet to eattle. Many things, sueh as skins, which have for a long time been the principle medium of exehange among the red Indians, can be divided, but unfortunately two small pieees are not of the same value as one large piece of the size of the two put together. Moreover the more such material is cut, the less valuable it beeomes. With metals, however, owing to the ease with whieh they ean be melted together after division, this drawbaek does not exist to any extent, and in the ease of the preeious metals hardly at all. In the ease of the material ehosen for eurreney divisibility is essential, while divisibility without loss of

value is highly desirable. Gold and silver possess both these attributes, and in that respect are ideally fitted for currency.

Approximate indestructibility is also desirable. Something is required that will not evaporate, decay or rust, and is not easily dissolved or burnt. Here again gold and silver appear to be the materials which best fulfil the requirements. It is not difficult to obtain these metals, or the alloys of them that are customarily used for coinage, in a state of practical homogeneity. In currencies of cattle, skins, wheat, oil, etc. this attribute is sadly lacking. It being difficult to produce a unit of any of them which is of precisely the same quality as that of any other unit.

The greater the volume of retail trade, the more necessity is there for the currency to be composed of something which can readily be recognised. In a pastoral state there is probably always plenty of time to thoroughly examine an animal which is tendered as payment in order to be sure that it comes up to the required standard. For present day conditions such a currency would be hopelessly unsuitable. Precious stones, ideal as they are as a store of value, are unsuitable for currency because of the difficulty of appraising their worth. If diamonds, so portable and indestructable, were in frequent use as currency, I fear that many of us would be in danger of finding our stores of wealth largely composed of worthless glass. In respect of easy recognition, pieces of metal seem to be best suited. Cut into certain sizes, and stamped all over with the same markings, as are our modern coins, they are easy to recognise at a glance.

It will be seen from the foregoing that nothing is able to serve all the requirements equally well, but that metals, and particularly the precious metals, approach nearest to the ideal. Alloys of copper, nickel and aluminium have also been found suitable.

At the present time we use gold

as a commodity,
as currency,
as a store of value, and
as a measure of value.

Such an arrangement has great advantages, but it is not essential, and has frequently not been the case. For instance, the measure of value might be silver, the principal currency gold, and the store of wealth diamonds. In Queen Elizabeth's time silver was the measure of value, gold was used for large payments, while the standard of value in reckoning long leases was corn.

One of the chief inconveniences of the system of reckoning in one substance and paying in another is that payments, such as rents taxes and tolls, intended to remain the same, do in fact become very different without any apparent change having taken place. If rent is payable in wheat, reckoned at so many bushels

of wheat to the pound sterling, the amount would always be recorded in pounds, shillings and pence as the same, whereas in bad seasons it would really mean a heavy rent, and in good seasons a relatively low one.

In lands where hunting is the principal occupation, it is found that the measure of value and the medium of exchange is usually furs or skins, or perhaps articles of ornament. In North America both these forms of currency have existed. Strings of beads made of shells, known as wampungeag, served the Indians, both as ornaments and currency. So firmly fixed was this, that the Court of Massachusetts, in 1649, ordered it to be received in payment of debts among the settlers at a rating of forty shillings for a piece a foot long (if of black beads), and two feet (if of white beads). This form of currency being very indestructible, was used by the Indians as a store of wealth, and was hoarded just as coin is hoarded.

Another, and perhaps better known currency, is the cowry shell. These are used in West Africa, India and Siam. In India they generally pass at a rating of 5,000 to a rupee (about .01 penny each). In Fiji whales teeth have been used as currency, one red tooth being worth about twenty white teeth. Amber, engraved stones, and scarabs have all been used as currency at various times and places.

In pastoral States, cattle and sheep have usually formed the measure of value and the currency. The ancient Hebrews reckoned their wealth in flocks and herds, although they used wedges of gold for a store of value and for payments on a large scale.

Animals as currency have many conveniences, they do not require to be transported, but can convey themselves from the debtor to the creditor, they are easily counted, and they are, in a pastoral state, universally in demand, also they keep at about same value for some years. Their chief drawback is lack of divisibility.

In Greece oxen were used as currency, although at the same time gold and silver were used as a store of value and occasionally as a medium of exchange.

It is interesting to us that it is from these pastoral days, with their animal currency, that we get many of our words relating to coin and currency.

The figure of an ox was one of the first to be impressed upon metallic currency, and our word pecuniary is derived from the latin *pecus*-cattle.

The word fee again comes from the Anglo-Saxon *feoh* (cattle). While in modern German, the word *vieh* also means cattle. In Norse, Anglo-Saxon and old English, the word *skat* meant cattle, and also tax, payment or tribute. Thus we have derived the expression Scot free—free from tax or tribute.

Cattle being counted by the head, they were called *capitale,* hence the word capital, also the legal term chattel.

In agricultural states, corn has usually been the currency. In Egypt in particular this was so. In Mediterranean lands, olive oil has been used as currency. This is a convenient medium from the point of view of divisibility. It lasts a very long time, and is in constant demand. Fufilling therefore, two of the conditions necessary for a commodity when used as currency. In Central America cacao nuts have been used.

Two of the best known vegetable currencies are tobacco and sugar. In the North American plantations, now the New England States, tobacco was the currency for a very long period. In 1732 Maryland made tobacco and Indian corn legal tender for payments.

In the West Indies, payments were legal in sugar, rum, molasses, indigo and tobacco.

In Barbados the currency was at first cotton and tobacco. In 1640 sugar became the currency and was rated in sterling at 10s. per 100 lbs. By the close of the 17th century, coin had taken the place of sugar to a great extent, and by 1715, a metallic standard was formally established.

Manufactured goods have also figured as currency. Pieces of cloth known as guinea pieces have been used on the west coast of Africa; salt in Abysinnia, Sumatra and Mexico; Benzoin gum and beeswax; in Sumarta, feathers, tea, etc.

In general the development from simple barter to the modern system of metallic and paper currency has followed much the same course. Various media of exchange were used until the idea was hit upon of making a metallic token to represent the article formerly used. A piece of metal comparatively rare at the time was taken and stamped with a mark to indicate that it was worth a unit or multiple of the customary standard of value. Thus in the case of ancient Greece, payments were made in bronze coins, reckoned in terms of cattle. That is to say, the money of account was cattle, but the currency was copper. As time went on the idea of the original currency became vague, and the metallic representative itself became the standard of value, and the money of account, as well as the medium of exchange. Increased mining operations made the chosen metal more common, and more of it had to be given in exchange for other things, that is to say: prices rose. The amount of coin to be handled then became inconveniently large, and at length a rarer metal was selected to represent the higher values in a more portable form. Thus copper, then silver, and lastly gold, were pressed into use for metallic currency. Ultimately owing to great expansion of trade, even gold became too bulky for convenience, and the further device was resorted to

of storing the gold in a safe place, and issuing written promises to pay gold out of that store when demanded. These documents (bank notes) greatly facilitated trade. By their aid the ownership of very large amounts of gold can easily be transferred from one person to another without the gold itself being moved. The chief drawback to the use of Bank Notes is their liability to destruction by fire, and the ease with which they enable a thief to get away with sums which he could not transport at all in the form of gold or silver. When in Europe the currency was chiefly made up of gold, silver, and notes, highway robbery was very rife. A later development of paper currency, the Bank cheque however put an end to that form of theft. The cheque form is useless until signed by someone who has money deposited at the Bank, while the devices of crossing and making the cheque payable only to the written order of the payee. have provided means by which payments of any amount can be made without handling anything more valuable than a piece of paper. Bills of Exchange, Money Orders, Postal Notes and Treasury Notes are still further developments of paper currency. When metallic currency is used the payee receives a commodity of the value of the thing he has parted with, whereas if he takes paper he has received that which of itself is of no value, and can only be used by him as a medium of further exchange provided that all parties concerned are satisfied as to the good faith and ability of the person named upon the document to meet the demand for the standard metal when it is ultimately made.

It will be seen that this last stage constitutes a sort of perfected barter. because the only things of value which are actually passed from hand to hand are the goods.

It is interesting to trace how our present system of currency: a gold standard, with gold coins and silver, bronze and paper tokens, came into being.

In Anglo-Saxon times the standard of value was the pound sterling, divided into 240 silver pence. That is to say, a pound weight of silver of the fineness used by the Easterlings (the name given by the Angles and Saxons to their ancestors on the Continent). That fineness was 11 oz. 2 dwt. of pure silver, and 18 dwt. of alloy, which can be expressed in the modern decimal system of recording fineness by the figures .925. This fineness of the silver coins of Britain has remained unchanged down to the present day, except for a period of 15 years in Tudor times, when the following debasement took place:—

Henry VIII.:	1543,	fineness	.833.
	1545	„	.500.
	1546	„	.333.
Edward VI:	1550	„	.500.
	1551	„	.250.
	1553	„	.921.
Elizabeth:	1558 fineness restored to .925.		

The gold standard was adopted in 1816, and since that time the words "pound sterling" have been used to denote the weight of a sovereign, that is to say 123.27 grains of gold of 22 carat fineness (or .916), which pound is also divided into 240 pence. The words pound sterling therefore, as now used, have no relation to any pound of gold, nor to the old sterling fineness, but are simply the old familiar terms descriptive of the former currency which have been transferred to the new gold currency. In the course of time however, the word sterling has come to mean "the standard fineness as fixed by law," and in that sense is justly applicable to the gold sovereign.

Until 1816, silver was the legal standard of value, and the value of all other things, gold included, was reckoned in it. From Stuart times onwards, however, gold was much more used than formerly, and because of its convenience for making large payments, became of principal importance in public estimation. It thus arose, that although silver was the nominal standard, gold from its usefulness became the more important metal.

When however, the rating of gold in sterling was too low, gold coins were bought up and exported as bullion to the countries where a better price could be obtained.

The Government would then raise the rating, and back came the gold coins, but, unless the new rating very accurately corresponded with the market values of the metals, away would go the silver ones. For about two centuries difficulties due to the impossibility of keeping both the gold and silver coins in circulation at the same time were hardly ever absent. The currency at last got into this condition:—

There was a fair supply of gold coins, but the silver coins consisted almost entirely of worn, clipped and debased pieces, so bad that it would not pay anyone to sell them as metal. Reflection will show that that state of affairs was, in its principle, very similar to that of the currency we now have in use. Gold, although not nominally the sole standard, was in fact treated as such, and the silver coins, nominally standard coins of intrinsic value, had in point of fact become more or less worthless tokens passing for recognised fractions of the gold coins. The principle of the present currency: a gold standard with token subsidiary pieces, was therefore in existence, although the public did not realise the import of it. At last a man arose who saw the meaning of the situation, and the reason for the state of currency chaos which had lasted for so long. That man was Lord Liverpool. In 1805 he addressed a letter to King George III. in which he pointed out the nature of the disease and prescribed the remedy. This letter, famous to all students of currency, made it clear that it was impossible to attempt to measure commodities in two things at the same time. That there must be one standard only, and that if for

the convenience of retail trade, coins of any other material proved to be wanted, then they must be made to pass for so much more than their metallic value as to prevent all temptation to melt them down, and further, that as at the time gold was held in the highest estimation by the public, and had thus been made a virtual standard, it was desirable to legally instal that metal as the standard of value, and in future to use silver for the manufacture of token pieces.

In his letter, Lord Liverpool dealt at length with evidence showing how impossible it had proved to maintain a currency in which more than one metal was required to circulate at its intrinsic value. He states that "By a decree of the Star Chamber Court, on the 7th February, 1636, seven persons convicted of culling out the most weighty pieces of coin of this realm, and melting them down and exporting the same, as well as foreign coin and bullion, to foreign parts were fined £8,100, and committed prisoners to the Fleet till they paid the fines so set upon them. It is asserted that individuals had by those practices made a profit of £7,000 to £8,000 per annum. . . . "But notwithstanding the proclamations, and the severities exercised for enforcing the execution of them, it appears, from a writer who lived in those times, that silver, either in foreign coin or bullion, was sold during the whole of this reign at 1d., 2d., 3d., etc. per ounce, above the Mint price, and he alleges that £30,000 in sixpences, shillings and half-crowns were melted annually by one single goldsmith for six years together, from 1624 to 1630."

The Secretary to the Treasury, Mr. Lowndes, in a report dated the 12th September, 1695, states "That in consequence of the defective state of the silver coin, great contentions daily arose among the King's subjects, in fairs, markets, shops and other places throughout the Kingdom, to the disturbance of the public peace; that many bargains and dealings were totally prevented and laid aside, which lessened trade in general; that persons before they concluded any bargain, were necessitated to settle first the price or value of the very money that they were to receive for their goods; and that they set a price on their goods accordingly; that these practices had been one great cause of the raising the price, not only of all merchandises, but of every article necessary for the sustenance of the common people,, to their great grievance."

Lord Liverpool's conclusion was summed up in the following words, *"Coins of both metals cannot be sent into circulation at the same time without exposing the public to a traffic of one sort of coin against the other by which the traders in money would make a considerable profit to the great detriment of Your Majesty's subjects."* . . .

He pointed out that the then existing silver coins were "subordinate and subservient to the gold coins, and in this quality only are current," and stated that in his opinion "gold coins should

continue to be the principal measure of property and instrument of commerce."

Lord Liverpool's advice was followed, and in 1816 the gold standard was formally adopted, with silver and copper coins as tokens passing current for definite fractions of the new gold pound sterling. The new standard coin, the sovereign, was first coined and issued in 1817.

From that time onwards the currency troubles of the British Isles ceased, and it is hard in these days to realise the conditions of chaos which reigned in this matter only one hundred years ago.

Britain was the leader in the matter of the adoption of the single gold standard, but nearly every other nation has by this time followed. The "Latin Monetery Union" first formed in 1865 (France, Belgium, Greece, Italy and Switzerland) endeavoured to maintain the dual standard. In 1878, however, the coinage of silver standard five-franc pieces was "suspended," and a virtual adoption of the gold standard thus introduced. Other countries adopted the gold standard in the years shown below:—

1868, Spain.
1871, Germany, Norway and Japan.
1875, Holland.
1899, Russia.
1900, United States.

In 1899, the sovereign was made legal tender in India. In 1906 however, it was fixed at a rating of 15 silver rupees.

Experience therefore appears to show that the only sound principle of currency is to have one commodity as the standard of value, and to express all values in terms of that standard. All other instruments of exchange, whether of metal or paper to be subsidiary to that standard. Token coins to circulate at so much more than their metallic value that profit cannot be made by melting them into bullion.

In adopting this principle it is not necessary for the actual standard of value to be represented by a coin. In the United States there is no gold dollar, nor in Germany is there a gold mark. The gold coins represent multiples of the standard.

It is not necessary in busines to make constant use of the standard coin (as is commonly done in England and Australia) so long as a sufficient store exists for the exchange of tokens on demand.

In view of the simplicity of the principles laid down by Lord Liverpool, and of the complete success which followed their adoption, it is remarkable that about twenty years ago there should have arisen quite a powerful movement to reintroduce the old system, or something indeed, a little worse. The bi-metallists of the ninetys wanted to fix the ratio between silver and gold by

law. In the old chaotic system some relief could be got by adjusting the ratio of the coins to the market worth of the materials of which they were composed, but this new proposal would not even have permitted that. The movement was probably set on foot by people who were losing by the fall in the gold price of silver, such as pensioners home from India, who had their pay reckoned in silver rupees and then changed into ever decreasing sums in sovereigns, also exporters of goods to India and China, who suffered in the same way. There were others, and a larger class, who were doing very well out of the fall in the price of sliver. They naturally kept quiet. Not much was heard from the importers of Indian, Chinese and Japanese goods who found a pound spent in Asia was able to buy more and more goods every year, goods which they sold in Europe at the same prices as before. However the attempt to govern the fluctuation in the value of a commodity by Act of Parliament is about on a par with the fabled exploit of Canute and the waves, and so, after a very energetic campaign in its favour which lasted for several years, the bimetallic scheme died a natural death.

The fundamental fallacy of the bimetallists appears to be that gold and silver are not commodities in the ordinary sense of the word, but that there is something intrinsically different in them, and that it is possible to fix not only their value, but the ratio between their respective values, by Act of Parliament, although a proposal to do the same for the prices of say eorn and coal or potatoes would probably be at oncc dismissed as absurd. Currency questions will never be clearly understood unless it is born in mind that the standard of value is only one of many commodities, chosen it is true for the qualities referred to in the beginning of this paper, but in no way different from the others in the matter of its price being fixed by the combined action of the demand for the article on the one hand, and the cost of its production on the other. The danger of investing gold and silver with mystic properties not shared by other commodities was dealt with by Locke as long ago as the year 1691, when he wrote, "An ounce of silver in pence, groats, crown pieccs, stivers, or ducatoons, or in bullion, is, and always will be, of equal value to any other ounce of silver."